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MONTANA

DIVISION OF
WORKERS'
COMPENSATION

ANNUAL REPORT

FISCAL YEAR 1988

DEPARTMENT OF LABOR & INDUSTRY
DIVISION OF WORKERS' COMPENSATION
TED SCHWINDEN, GOVERNOR
MARGARET "PEG" CONDON BLDG.
5 SO. LAST CHANCE GULCH
STATE OF MONTANA
HELENA, MONTANA 59601

December 22, 1988

Governor Ted Schwinden
GOVERNOR'S OFFICE
State Capital Building
Helena, MT 59620

Dear Governor Schwinden:

As required by Section 39-71-210, MCA, I am transmitting the "Annual Report" of the Division of Workers' Compensation for the year ending June 30, 1988.

This report summarizes Division activities as they pertain to the entire Workers' Compensation System, the State Compensation Insurance Fund and Compliance/Administration responsibilities.

I am happy to inform you that all reports and financial indicators available at this time indicate the 1987 reforms are having a positive effect after only one year. The State Compensation Insurance Fund financial reports reflect a positive cash flow for the first time since 1984, the unfunded liability appears to have peaked, and a few private insurers are venturing back into the Montana workers' compensation insurance market.

As indicated before the passing of the reform legislation, the real effects of the statutory changes will not be finally known until they are in place from three to five years. However, the early signals are all encouraging.

Sincerely,

ROBERT J. ROBINSON
Administrator

RJR/bac

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SECTION I

THE WORKERS' COMPENSATION SYSTEM

Year in Review

SURVEY DISCLOSES MONTANA RATES IN LINE

A survey conducted in the spring of 1988 indicates the rates Montana employers pay for workers' compensation premiums are in line with rates charged by other insurers in the twenty states west of the Mississippi. It was found that in 14 of the 20 occupations surveyed, rates in Montana are lower than those of the majority of insurers in other states.

Job classifications selected were based upon the amount of payroll reported annually as well as some common Montana occupations. In six of the occupations, Montana ranks in the lower one-third. In another thirteen occupations, Montana ranks in the middle third. Only in one occupation did a Montana rate fall into the upper third. Rates included in the survey were those of the jurisdiction's state fund, if one exists, plus the actual rate written by the largest private insurer.

Montana's State Fund rates are near or below the median for all occupations surveyed, both in comparison to other state funds and active private carriers.

ACTIVITY INCREASING IN OCCUPATIONAL DISEASE CASES

When cumulative injury cases caused by repetitive trauma were removed from the Workers' Compensation Act and placed in the Occupational Disease Act, the increase in the number of OD cases was significant. In the fourth quarter of the year prior to the change, 16 occupational disease case orders were issued. One year later, in the same quarter, after the new legislation became effective, 196 orders were issued. This trend will continue until cases are better defined as either "injury" or "disease." Some conditions will clearly fall into the disease category, while other conditions normally attributed to "wear and tear" or minor "repetitive trauma" may arguably be classified as "disease" as well. Chronic back pain and degenerative arthritis are examples of conditions which will require a close review.

ADMINISTRATIVE ASSESSMENTS SHOW CHANGE

The administrative assessment rate for Plan I insurers increased by approximately 0.03% from FY 1987 to FY 1988. While the payroll base increased slightly from one year to the next, the needed assessment increased as a result of more Division activity supporting Plan I insurers. The rate for Plan II insurers also increased from FY 1987 to FY 1988. The increase from 1.8865% to 2.3299% was due to a 22% decrease in Plan II gross annual premium, not an increase in the needed assessment.

SELF-INSURANCE GUARANTY FUND IN REVIEW

The Division has under consideration a proposal by the Montana Self-Insurers Association to create a guaranty fund. The purpose of the fund is to establish a financial resource from which payments are guaranteed in the event a self-insurer is unable to meet its benefit obligations under the provisions of the Montana Workers' Compensation Act. All authorized self-insurers would participate by contributing a certain assessed sum.

EXTRATERRITORIAL AGREEMENT SIGNED

An agreement signed by Governor Schwinden reestablished a reciprocal arrangement in which workers with temporary jobs in North Dakota and Montana are covered by their home state's insurance. The arrangement marks the end of a seven year period when neither state would honor the other's workers' compensation insurance coverage. North Dakota became the eighth state to participate in the program. This renewed agreement will greatly improve interstate cooperation on issues involving coverage jurisdiction as well as eliminate the necessity for employers to carry a policy in both states.

SUPREME COURT HOLDS FAMILY MEMBER EXEMPTION UNCONSTITUTIONAL

The Court held that the exemption from mandatory workers' compensation coverage for "employment of members of an employer's family dwelling within the employer's household" has no rational basis and is unconstitutional. Coverage is now mandatory for all family member employees.

SUPREME COURT INTERPRETS MEDIATION AUTHORITY

The 1987 Legislature enacted a mandatory nonbinding mediation process as a prerequisite to pursuing resolution of disputed benefits in the Workers' Compensation Court. In the case of ***State ex rel. Pacific Employers Insurance Company v. Workers' Compensation Court and Worts***, the Court held that the 1987 amendments to the Act concerning dispute resolution and mediation do not apply retroactively in cases in which petitions were filed with the Workers' Compensation Court before July 1, 1987. In the case of ***Carmichael v. Workers' Compensation Court and ARCO Metals Company***, the Court held that the delay caused by the mandatory mediation process represents a substantial impairment of a claimant's contractual right to benefits which cannot be applied retroactively. So claimants injured before July 1, 1987, can pursue their claims directly in the Workers' Compensation Court without going through mediation first. Prior to the court decision, between 60 and 90 percent of the issues brought before mediation were handled in less time than those taken through the court process.

CONTESTED CASE HEARINGS INCREASE

The Division conducts hearings under the Administrative Procedure Act regarding such issues as State Fund premium, Uninsured Fund penalty, uninsured claims, medical benefits, attorney fees, subrogation, rehabilitation, claim filing extensions, occupational disease claims, and other issues covered by the Workers' Compensation and Occupational Disease Acts. The Division had about 80 requests for hearing in FY 1987 and 125 in FY 1988. It is expected that the numbers of hearings will continue to increase with the expanded jurisdiction of the Division under the 1987 Act. The Division has trained eight staff members to act as hearing examiners in addition to their regular duties.

ATTORNEY FEE RULE REVISED

In May, 1988, the District Court in Gallatin County declared the 1987 version of the Division's attorney fee rule to be invalid for its failure to allow a variance from the maximum fee limits in the rule and its failure to consider factors for determining a reasonable fee set out by the Montana Supreme Court case of ***Wight v. Hughes Livestock Co.*** The Division proposed and adopted a new rule which conforms with the Court's opinion.

MEDICAL SERVICE RULES PROGRESSING

The Division has laid a foundation for the implementation of chiropractic and physical therapy service rules. A conference is scheduled for early fall which will allow interested insurers, chiropractors, physical therapists, and adjusters to comment on proposed rules. The Montana Association of Chiropractors has agreed to present suggested rules for consideration.

PROCEDURES FOR MANDATORY REHABILITATION PUT IN PLACE

Insurers are now referring disabled workers to private counselors for rehabilitation assistance as called for in new Division rules. The purpose of the program is to return injured workers to the work force as rapidly as possible. Rehabilitation panels now review cases where rehabilitation was provided but the worker failed to return to work. The panels will become fully active in Fiscal 1989 as cases requiring rehabilitation mature enough to participate in the program.

UNINSURED EMPLOYERS FUND ACTIVATED

Action by the 1987 Legislature to put the Uninsured Employers Fund on a cash rather than an accrual basis has enabled the Division to activate benefit payments. During fiscal period beginning July 1, 1987, the fund paid $63,546 in wage loss benefits to eighty-one injured workers whose employers failed to carry the required insurance. Because of the continued limitation of financial resources, funds are still unavailable to cover medical benefits.

UNINSURED EMPLOYERS FUND

STATISTICAL ACTIVITY

	FY 1987	FY 1988
Number of Compensation Claims Paid	0	76
Number of Investigations Made	1,203	2,426
Number of Audits Performed	40	157
Number of Employers Fined	239	444
Number of Accounts Referred for Collection	160	106
Amount of Billed Fines & Assessments Collected	$ 140,089	$ 266,536

FINANCIAL ACTIVITY

	FY 1987		FY 1988	
	Amount	Percent	Amount	Percent
Revenue Sources:				
Fines & Penalties Billed	$ 365,073	79.1%	$ 861,537	91.8%
Fatality Assessments	32,000	6.9	34,000	3.6
Penalties & Interest	914	.2	5,555	.6
Interest Earnings	63,810	13.8	37,144	4.0
TOTAL REVENUE	$ 461,797	100.0%	$ 938,236	100.0%
Program Costs:				
Benefits	$ -0-	0.0%	$ 63,546	18.7%
Administrative Expense	91,149	100.0%	275,700	81.3%
TOTAL COSTS	$ 91,149	100.0%	$ 339,246	100.0%

RELATIVE VALUE FEE SCHEDULE TO BE UPDATED

Groundwork has been laid to update and simplify the medical relative value schedule used to establish provider fees. Because the 1987 Legislature temporarily froze the fees at the January, 1987 level, the Division has undertaken a program to review the current schedule and make adjustments as necessary. When the restriction runs out in January of 1990, a new schedule combining all fee guidelines will be published in one volume. Conversion amounts will be based on billings submitted to the State Fund between October, 1988, and September, 1989.

ANNUAL SEMINAR EMPHASIZES REFORM LEGISLATION

Over 350 people attended the Division's annual seminar primarily to become acquainted with the reform legislation passed in 1987. Representatives from the legal profession, rehabilitation, insurance industry, medical community, employers, and labor participated. Various speakers presented a history of the need for reform, the process involved, and the final outcome.

Three separate workshops dealt with various aspects of the revised statutes. A dispute resolution presentation provided an overview of the new mediation process and a synopsis of the expanded authority given the Workers' Compensation Court. Another workshop reviewed rehabilitation and the return-to-work process, while the third discussed public policy and how the system changed because of various legislative revisions.

ADMINISTRATIVE RULES ADOPTED

The Division adopted several rules in FY 1988 required by the 1987 amendments to the Act. The rules deal with hearing time limits, limitation on fees for hospital services, attorney fees, impairment rating process, Plan II insurance carrier deposits, rehabilitation procedures, self-insurer regulation, Uninsured Employer Fund distribution, and an update of the organizational rule.

SYSTEM STATISTICAL SUMMARY

The Workers' Compensation and Occupational Disease Acts allow employers to obtain coverage in one of three ways. With Division approval, certain large employers or employer groups which meet statutory and administrative requirements may self insure, Plan I. Coverage also may be secured from a private carrier licensed to write in Montana, Plan II, or from the state-operated insurance program, Plan III, known as the State Compensation Insurance Fund. Information given in the following table summarizes the activity for each plan during the last three years.

	1985-86	1986-87	1987-88
Plan I - Self Insurance			
Number of employers enrolled at year end	54	47	44
*Gross annual payroll	$522,691,098	$550,971,920	$577,672,509
Number of work injuries reported	3,267	3,359	4,177
Number of claims filed	541	605	667
Compensation benefits paid	$ 6,666,015	$ 8,497,958	$ 8,563,926
Medical & burial benefits paid	$ 3,020,366	$ 3,783,168	$ 4,787,563
Uninsured employers assessments	$ 0	$ 2,000	$ 5,000
Plan II - Private Carriers			
Number of employers enrolled at year end	8,470	9,065	5,944 **
*Annual premium	$ 52,120,000	$ 41,261,762	$ 58,463,173
Number of work injuries reported	8,775	5,596	6,295
Number of claims filed	1,904	1,304	1,404
Compensation benefits paid	$ 35,382,131	$ 34,311,089	$ 34,120,643
Medical & burial benefits paid	$ 12,515,194	$ 11,201,664	$ 12,102,565
Uninsured employers assessments	$ 9,000	$ 7,000	$ 4,000
Plan III - State Fund			
Number of employers enrolled at year end	25,665	26,950	26,929
Annual premium	$ 50,861,306	$ 70,161,068	$ 85,865,028
Number of work injuries reported	16,537	16,105	18,141
Number of claims filed	3,364	3,660	4,025
Compensation benefits paid	$ 43,866,927	$ 54,036,180	$ 63,238,309
Medical & burial benefits paid	$ 20,472,172	$ 25,513,859	$ 27,319,541
Uninsured employers assessments	$ 21,000	$ 18,000	$ 24,000

*Figures shown on calendar year basis.

**In previous years, the number of Plan II employers represented the total number of employers enrolled regardless of whether or not the policy was active. Beginning with fiscal 1988, only firms with active policies will be reported at year end.

WORK INJURY REPORTS

The Division collects a variety of statistics concerning the nature and cause of industrial injuries. It uses a standardized system adopted by the Bureau of Labor Statistics to code accident data taken from reports submitted by employers and injured workers. Tables presented here represent accidents reported for the fiscal year ending June 30, 1988. In addition to the number of accidents reported, the reader is provided with information on the nature of injury, part of body affected, accident type, source, industry group involved, and age and sex of injured persons.

NATURE OF INJURY

Description	Number	Percent
Burns	1,055	3.7
Open wounds	8,044	28.1
Sprains & strains	10,843	37.9
Fractures	1,583	5.5
Diseases	812	2.8
Bruises	3,312	11.6
Multiple	97	.3
Other	620	2.2
Not classified	2,247	7.9
TOTAL	28,613	100.0

PART OF BODY AFFECTED

Description	Number	Percent
Head, face and neck	2,005	7.0
Eyes	2,407	8.4
Body systems	481	1.7
Trunk	1,666	5.8
Back and spine	5,778	20.2
Arms and wrists	2,448	8.6
Hands and fingers	5,793	20.2
Upper extremities	1,145	4.0
Legs and ankles	3,288	11.5
Feet and toes	1,236	4.3
Lower extremities	186	.7
Body multiple	1,875	6.6
Not classified	305	1.0
TOTAL	28,613	100.0

ACCIDENT TYPE

Description	Number	Percent
Struck by object	9,692	33.9
Caught in, on, or between	1,343	4.7
Slips and falls	3,552	12.4
Motor vehicle	461	1.6
Strain or over exertion	8,458	29.5
Temperature extremes	650	2.3
Electrical current	48	.2
Inhalation	979	3.4
Rubbed or abraded	1,998	7.0
Combinations	3	.0
Not classified	1,429	5.0
TOTAL	28,613	100.0

INDUSTRY GROUP

Description	Number	Percent	Employment (thousands)*
Agriculture	1,789	6.2	31.0
Mining	1,055	3.7	5.9
Construction	2,411	8.4	6.2
Manufacturing	4,919	17.2	20.4
Transportation and public utilities	1,958	6.8	15.9
Wholesale trade	1,659	5.8	14.2
Retail trade	5,112	17.9	56.1
Finance, insurance, real estate	288	1.0	13.0
Services	7,658	26.8	62.0
Government: State, Local & Federal	1,736	6.1	63.4
Not classified	28	.1	
TOTAL	28,613	100.0	

* Montana Employment & Wages, First Quarter 1988

SOURCE OF INJURY

Description	Number	Percent
Animals	515	1.8
Atmosphere	33	.1
Body motion	2,073	7.2
Boilers	103	.4
Boxes and barrels	2,558	8.9
Buildings	897	3.1
Chemicals	696	2.4
Conveyors	42	.2
Dirt masses	747	2.6
Electrical apparatus	294	1.0
Flame and smoke	303	1.1
Food	246	.9
Furniture	1,161	4.1
Glass	295	1.0
Hand tools	2,754	9.6
Hoisting apparatus	219	.8
Ladders	72	.3
Machines	1,460	5.1
Mechanical transmission	12	.0
Metal items	2,477	8.7
Particles	1,222	4.3
Textile	97	.3
Trees	1,975	6.9
Vehicles	1,293	4.5
Working surfaces	3,357	11.7
Miscellaneous	2,334	8.2
Not classified	1,378	4.8
TOTAL	28,613	100.0

AGE AND SEX OF INJURED PERSONS

Age Group	Male	Female	Both
Below 15	21	5	26
15-19	976	499	1,475
20-24	2,756	1,034	3,790
25-29	3,821	1,358	5,179
30-34	3,562	1,282	4,844
35-39	2,735	1,050	3,785
40-44	1,875	844	2,719
45-49	1,303	647	1,950
50-54	1,020	494	1,514
55-59	781	406	1,187
60-64	443	214	657
65-69	92	50	142
70-74	25	17	42
Over 75	24	8	32
Not Classified by Age	902	331	1,233
Sex Unknown	---	---	38
TOTAL	20,336	8,239	28,613

ACCIDENT TRENDS

The number of accidents reported compared to the civilian labor force increased slightly in 1987 for the first time in many years. During the ten years between 1978 and 1987, the percentage peaked at 9.3% in 1979 and reached an all-time low of 6.6% in 1986.

Calendar Year	Civilian Labor Force in Montana	Percentage Having Accidents
1978	368,000	9.0
1979	371,000	9.3
1980	371,000	9.2
1981	385,000	8.6
1982	394,000	7.8
1983	395,000	7.7
1984	404,000	7.7
1985	405,000	7.4
1986	407,000	6.6
1987	403,000	6.7

Lost time injuries as a percent of reported accidents increased from 26.8% in 1987, to 28.1% in 1988. During prior reporting periods, the percentage hit a high of 30.6% in 1984 and a low of 26.8% in 1987. The 1988 figures show a 14.2% increase in the number of accidents reported and a 19.4% increase in lost time injuries from the prior year.

Fiscal Year Ending	Reported Accidents	Lost Time Injuries	Percentage Total
1979	34,295	10,185	29.7
1980	34,736	10,306	29.7
1981	33,888	10,127	29.9
1982	31,953	8,903	27.9
1983	29,717	8,709	29.3
1984	31,343	9,597	30.6
1985	31,243	9,533	30.5
1986	28,579	9,013	31.5
1987	25,060	6,721	26.8
1988	28,613	8,026	28.1

INJURY AFFECT ON WORK ATTENDANCE

The table presented here attempts to display how industrial injuries are affected by a worker's ability to return to the next scheduled work shift following an accident. Cases where there was a medical cost involved but the worker made the next scheduled work shift are categorized as "no lost time injuries". If a determination could not be made as to medical cost or lost time, the injury was reported in the "unknown" category.

Fiscal Year Ending	Total Injuries	Lost Time Injuries	No Lost Time Injuries	Fatalities	Unknown
1979	34,295	10,185	19,939	38	4,133
1980	34,736	10,306	20,555	37	3,838
1981	33,888	10,127	20,608	45	3,108
1982	31,953	8,903	19,352	44	3,654
1983	29,717	8,709	16,153	45	4,810
1984	31,343	9,597	11,196	48	10,502
1985	31,243	9,533	9,908	40	11,762
1986	28,579	9,013	12,448	20	7,098
1987	25,060	6,721	10,726	36	7,577
1988	28,613	8,026	18,478	25	2,084

FATALITIES

The table presented here provides information on industrial-related fatalities by type of insurer during the 1988 fiscal period.

INDUSTRY	PLAN I	PLAN II	PLAN III	TOTAL
AGRICULTURE				
Vehicle accident			1	1
Heart attack			1	1
MINING				
Ditch caved in	2			2
Collision with train		1		1
Fall	1			1
TRADE				
Murdered			1	1
CONSTRUCTION				
Respiratory failure			1	1
Heart attack			1	1
Electrocution			1	1
MANUFACTURING				
Hit by machine	1			1
Crushed by skidder			1	1
Caught in auger		1		1
Struck by tree			3	3
Vehicle accident			1	1
TRANSPORTATION				
Aircraft accident			1	1
Caught under tractor			1	1
Bursted aneurysm			1	1
PUBLIC ADMINISTRATION				
Vehicle accident			1	1
Occupational disease			1	1
Heart attack			1	1
SERVICES				
Aircraft accident		1		1
Vehicle accident			1	1
TOTALS	4	3	18	25

OCCUPATIONAL SAFETY & HEALTH SURVEY

An annual Occupational Safety and Health Survey is conducted by the Division in cooperation with the Bureau of Labor Statistics of the U.S. Department of Labor. Reported data are based on employer-maintained records. The results of the survey are used in measuring and evaluating the effectiveness of the Occupational Safety and Health Act in reducing work-related injuries and illnesses. Survey results are also used as a tool to direct education and inspection activity to industries which have the greatest need for safety improvement programs.

The survey, conducted on a calendar-year basis, included employers of all private industries except self-employed individuals and agricultural firms employing ten or less employees. Federal, state and local governments are not included.

1986 AND 1987 INJURY AND ILLNESS INCIDENCE RATES

Industry	Total Cases		Lost Workday Cases		Lost Workdays		No Lost Workday Cases	
	1986	1987	1986	1987	1986	1987	1986	1987
All Industries*	8.2	9.0	3.4	3.6	61.6	80.2	4.8	5.4
Agriculture, Forestry and Fishing**	12.9	13.2	5.3	4.6	83.4	60.1	7.6	8.6
Mining	6.3	7.9	3.6	4.3	75.8	119.4	2.7	3.5
Construction	17.4	14.8	6.1	5.0	113.3	100.3	11.3	9.8
Transportation and Public Utilities	7.4	7.6	3.2	4.0	75.5	87.1	4.1	3.6
Communication	2.2	3.5	.9	1.7	4.7	55.8	1.4	1.8
Electric, Gas & Sanitary Services	6.8	7.3	3.3	3.6	32.5	31.9	3.5	3.7
Wholesale and Retail Trade	6.3	7.6	2.3	2.6	37.7	49.0	4.0	5.0
Wholesale Trade	7.6	8.7	3.5	3.9	62.8	75.7	4.1	4.8
Retail Trade	5.8	7.2	1.9	2.2	29.0	40.3	3.9	5.1
Finance, Insurance, and Real Estate	1.1	1.1	.4	.2	6.1	7.2	.7	.9
Services	6.9	7.8	2.7	2.9	45.1	68.7	4.1	4.9

* Private sector

** Does not include agriculture with 10 or fewer employees

Incidence rates were calculated as follows: N/EH x 200,000 where

N = number of illnesses and injuries or lost workdays

EH = total hours worked by all employees during the calendar year

200,000 = base for 100 full-time equivalent workers (50 weeks x 40 hours)

SECTION II

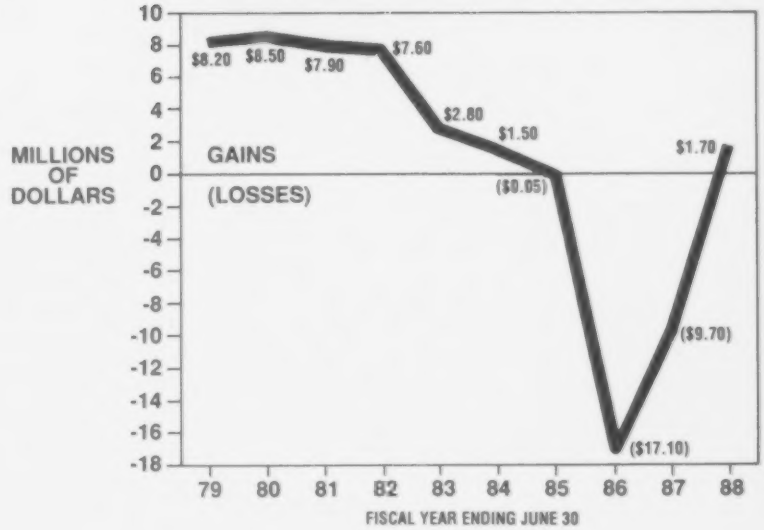
STATE COMPENSATION INSURANCE FUND

Year In Review

FINANCIAL CONDITION IMPROVES

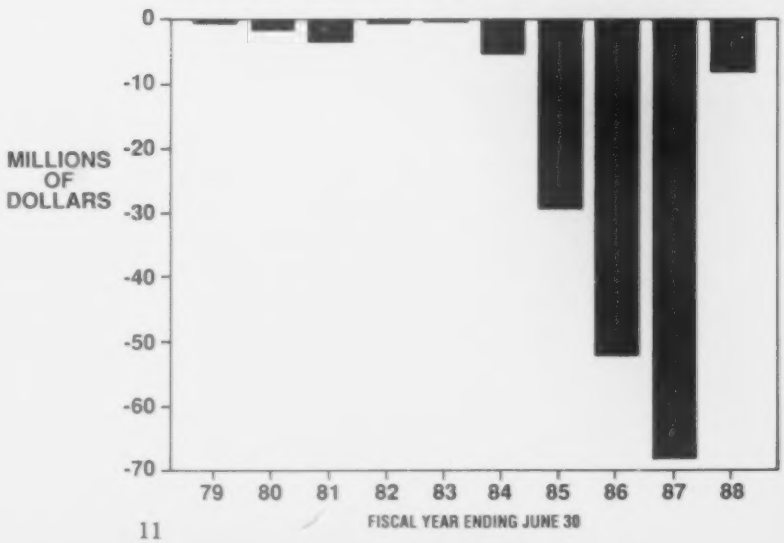
After the first year of a ten-year recovery plan, the financial condition of the Fund appears to have stabilized. This year's **operating gain of $1.7 million** is the first since 1984. The current year's loss ratio of 1.18 represents a considerable improvement from the 1.97 experienced last year and the 1.95 recorded in 1986.

OPERATING GAINS & LOSSES



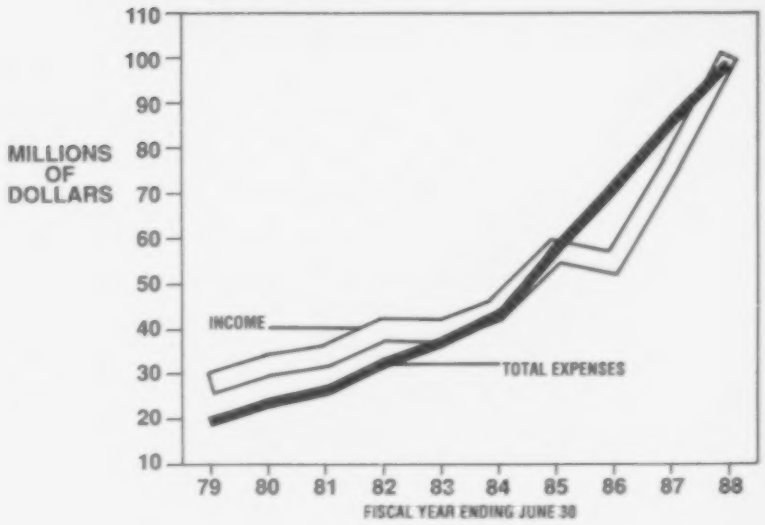
Although the unfunded liability at year end grew by $7.8 million to a total of $157 million, the increase was significantly lower than the growth in the prior two fiscal periods. The unfunded liability had grown by $68.5 million between Fiscal '86 and '87 and by $52.0 million between Fiscal '85 and '86. The actuary has indicated that the unfunded liability may have peaked during the year ar d the year-end liability may well represent a decline from that level.

FUND BALANCE DECREASES



Total income increased from $76.1 in Fiscal Year 1987 to $100.2 million this year, a growth of some 32%. $10.9 million of the increased revenue was generated by the new payroll tax. Earned premium increased more than $15.5 million, or 22%, while interest earnings from investments decreased by 43% to $3.5 million, a decline of $2.7 million. Both the payroll tax revenue and the reforms of 1987 are jointly recognized as the principle reasons for the improvement. Initial trends indicate that the fund balance will improve and the 10-year process is still a viable prognosis.

INCOME & TOTAL EXPENSES



MEDICAL PAYMENT BACKLOG OVERCOME

Several years ago a project was undertaken to automate the medical bill payment system. Changes were necessary because of the large volume of vendor invoices processed and projected. Payment backlogs had varied from 60 to more than 100 days. These delayed payments caused problems, many of which compounded because of the extensive backlog. Although attempts were made to overcome the problem, payments within 45 days of the billing seemed to be as quick as the staffing pattern and the system would allow at that time.

A new medical payment system was installed in July of 1987. Conversion from the old to the new method of paying vendor invoices was difficult, and in the interim, the backlog grew again. Difficulty centered on determining the number of personnel required--not only to overcome the backlog but to maintain a satisfactory level of service. The goal was to record invoices within two to three days from receipt and issue payments within 30 days. In order to overcome the backlog personnel expended a considerable amount of extra effort in the form of overtime, compensatory time, hiring temporary employees, and contracting with the Department of Administration Data Entry Unit to work evenings.

In early March, the effort paid off. The backlog was overcome and all vendor invoices are now recorded within two days. Once the payment request is authorized, most providers are receiving a warrant within 30 to 40 days. Permanent staff have been hired to ensure the continuation of payments within an acceptable time frame. The system now checks for duplicate payments, charges in excess of those allowed by the fee schedule, and requests from unauthorized providers.

STAFF INCREASED TO PROVIDE BETTER SERVICE

Traditionally, staffing patterns were established during biennial budgeting and approved by the legislative appropriation process. The ability to respond to changing workload demands under this system was impossible for a growing workers' compensation insurer. Case loads far exceeded the staffing levels necessary to provide adequate attention to sound methods of claim management.

Once the 1987 Legislature recognized the effects of the stationary system, it passed legislation allowing staffing patterns for claim management to be based on the case load per examiner. Consequently, during the fiscal 1988, additional personnel were recruited, hired, and trained, resulting in a vast improvement in both compensation and medical payment processing. The need for attention to detail is now met according to a flexible staffing formula. All additional personnel requests are still subject to the approval of the Governor's Budget Office.

SAFETY INCENTIVE PROGRAM RECOGNIZED

Montana has become one of 10 states awarded a certificate for its safety incentive program. The International Association of Industrial Accident Boards & Commissions (IAIABC) awarded the certificate for initial compliance with IAIABC health and safety standards for the State's efforts to require insurers to offer a safety program for those they insure.

The honor was principally awarded because of reform legislation passed in 1987 which allowed the State Fund to give policyholders financial incentives for adopting approved loss control programs and the implementation of SCIF Safety Incentive Program.

The SCIF currently allows a five percent (5%) up-front premium discount for qualifying employers. Each employer who participates must first meet certain core management and safety requirements before they can qualify. Fourteen firms were certified during the first year of the program.

IN-HOUSE TRAINING PROGRAM IMPLEMENTED

A training program was implemented to instruct novice and veteran claims examiners on the techniques of dealing with claims covered either by old law or by the Reform Act of 1987. Management personnel emphasized the need to expedite claim handling by becoming knowledgeable about the circumstances of each case. Medical consultants assisted with the instruction by reviewing selected medical topics. Plans are to continue the process and update staff regularly.

ADVANCE DEPOSIT REQUIREMENTS REVISED

In addition to certificates of deposits and cash payments, the State Fund now allows qualifying firms to satisfy the advance deposit requirement by presenting a surety bond of a qualified bonding company. The new policy allows large employers to guarantee premium payment without committing significant cash reserves. On a selected basis, certain firms may make arrangements to pay premiums in advance, thereby avoiding the deposit requirements entirely.

REHABILITATION CONTRACTS AWARDED

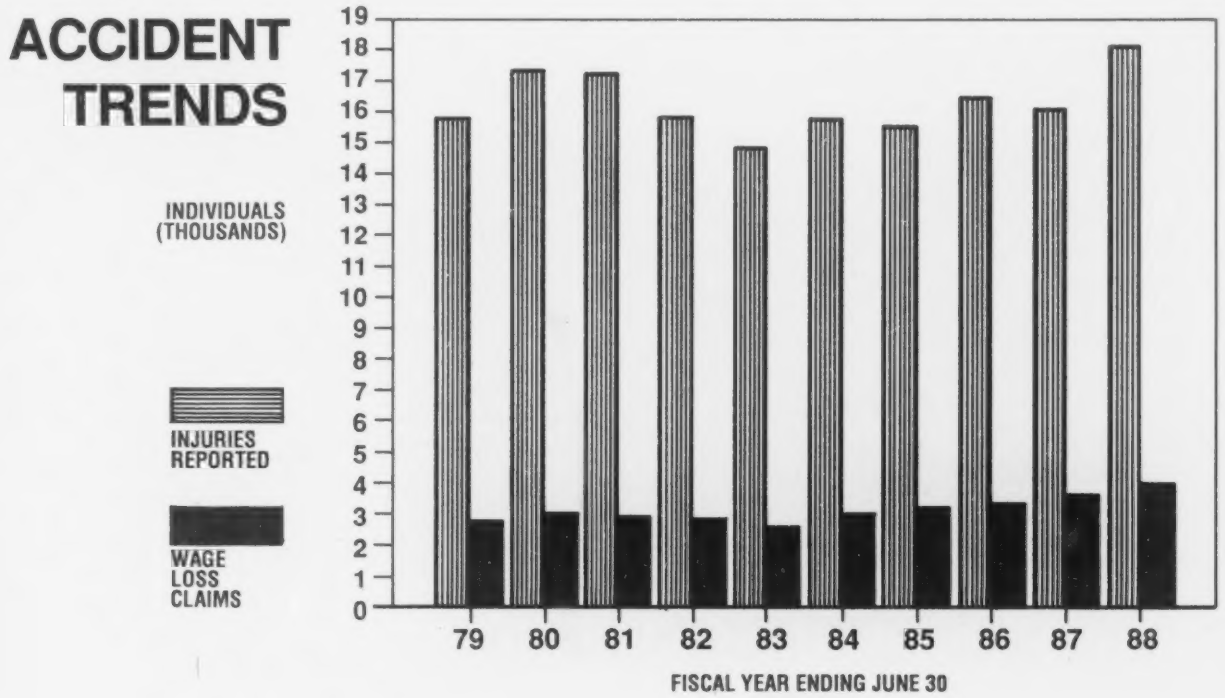
Three firms were awarded contracts in 1987-88 to provide rehabilitation services for State Fund claimants. Each firm has an office in all major Montana cities, which is necessary to ensure attentive client response. State Fund claim examiners monitor the injured worker's progress through the program and evaluate the benefit of services provided. The new program is more responsive to both the insurer and the injured worker than the vocational process provided for under the old law. As of year end about 460 new law cases were referred to rehabilitation vendors to take advantage of this new approach to rehabilitation and return-to-work.

LEGISLATIVE REVISIONS REQUIRE COMPUTER PROGRAM CHANGES

Major changes were made to State Fund premium billing and receipting systems to support legislation allowing for collection of a minimum premium. The new law requires all employers enrolled in SCIF to pay a fair share of the costs of administration. Based on an analysis of the costs of administration, the minimum for the fiscal year was determined to be $80. Policyholders who did not pay at least $80 were billed the balance at year end.

ACCIDENT TRENDS REMAIN STABLE

Reported work injuries over the past ten years have remained relatively stable considering the number of enrolled firms. In 1979 there were approximately 0.78 accidents reported per active policy. By 1984 employers reported an average of 0.67 accidents per policy year. During Fiscal 1988 accidents per policy continued at 0.67. Wage loss claims as a percentage of accidents reported increased slightly over the same ten year period from 17.5 in 1979 to 22.2 in 1988. However, the number of wage loss claims per employer enrolled varied from 0.14 per year in 1979, 0.13 in 1984 to 0.15 in Fiscal 1988.



STATE COMPENSATION INSURANCE FUND

BALANCE SHEET

JUNE 30, 1988

ASSETS

Cash in Treasury			$ 753,142
Premium Receivable			23,847,773
Interest Receivable			725,988
Notes Receivable			241,068
Adjusted Accounts Receivable			3,968,355
Property Held in Trust			7,973,579
Investments:			
Mortgages	$ 153,857		
Federal Securities	3,760,997		
Corporate Bonds	22,218,108		
Securities on Loan	727,876		
Short Term Investment Pool	2,479,200	$ 29,340,038	
Plus: Unamortized Premiums	$ 13,048		
Interest Purchased	5,548	18,596	
Less: Unaccumulated Bond Discounts	$ (2,049,519)		
Unaccumulated Federal Security Distribution	(79,601)	(2,129,120)	
Net Investments			27,229,514
TOTAL ASSETS			$ 64,739,419

LIABILITIES, RESERVES AND FUND BALANCE

LIABILITIES			
Adjusted Accounts Payable		$ 642,066	
Advance Deposits		15,001,503	
Uncleared Collections		543	$ 15,644,112
CLAIMS RESERVES			
Compensation Benefits		$ 158,030,363	
Medical Benefits		45,459,033	
Medical Only Benefits		2,938,550	206,427,946
FUND BALANCE			
Unrestricted			(157,332,639)
TOTAL LIABILITIES, RESERVES AND FUND BALANCE			$ 64,739,419

STATE COMPENSATION INSURANCE FUND

STATEMENT OF OPERATIONS AND CHANGES IN RESERVES
JUNE 30, 1988

INCOME

Earned Premium		$ 85,865,028
Interest Earnings on Investments		3,578,622
Payroll Tax		10,952,370
Other Income		41,642
Total Current Year's Income		$ 100,437,662
Prior Year's Adjustments, Net		(205,389)
Total Income		$ 100,232,273

EXPENSES

Claims Expenses:		
Compensation Benefits	$ 63,238,309	
Medical Benefits	27,319,541	
Total Claims Expenses	$ 90,557,850	
Other Expenses:		
Administrative Assessment	$ 6,785,000	
Rehabilitation Assessment	537,705	
Structured Settlements - Interest	17,235	
Miscellaneous Expenses	669,326	
Total Other Expenses	$ 8,009,266	
Total Expenses		$ 98,567,116
RESULTS OF OPERATIONS BEFORE CHANGES IN RESERVES		$ 1,665,157
Less: Changes in Reserves:		
Compensation Benefits	$ 8,536,073	
Medical Benefits	(970,315)	
Medical Only Benefits	2,263,550	9,829,308
RESULTS OF OPERATIONS AFTER CHANGES IN RESERVES		$ (8,164,151)
Prior Year Negative Surplus		(149,168,488)
NEGATIVE SURPLUS		$ (157,332,639)

C & B CONSULTING GROUP

COATES, HERFURTH & ENGLAND, INC.

November 22, 1988

Workers' Compensation Division
Department of Labor and Industry
State of Montana
P. O. Box 4759
Helena, Montana 59604-4759

Ladies and Gentlemen:

We have examined the methods and procedures utilized by the Workers' Compensation Division of the Department of Labor and Industry of the State of Montana in the determination of its liabilities for compensation, hospital, medical and other benefits as of the close of its fiscal year ended June 30, 1988, under Compensation Plan Number Three, as set forth in the Workers' Compensation Act. Our examination included a determination of the appropriateness of the underlying methods and procedures, such review of the basic records as we considered necessary in the circumstances and an analysis of the results so obtained.

The resulting liabilities for benefits to be paid, so determined, may be summarized as follows:

Compensation benefits	$158,030,363
Medical benefits	45,459,033
Medical only benefits	2,938,550
Total	$206,427,946

In our opinion, the above claim liabilities are based upon the benefits provided under the Workers' Compensation Act of the State of Montana. Further, in our opinion, on the basis of the information and procedures referred to above, and upon our assumption that the procedures of the Division are adequate to properly establish and maintain records required for this purpose, such liabilities in the aggregate are reasonable and appropriate as of that date. Because a negative unrestricted fund balance exists as of June 30, 1988, future premiums will need to be drawn upon to satisfy the existing liabilities of the Fund. The continuing financial soundness of the Fund is therefore conditioned upon these future premiums being realized.

By following this procedure each year and by reviewing and adjusting the rates each year to reflect changing benefits and experience, in our opinion, the Fund can continue to be maintained on a sound actuarial and financial basis.

Sincerely yours,

Drew A. James, F.S.A.

DAJ/pv

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SECTION III

DIVISION OF WORKERS' COMPENSATION

Year in Review

WORKLOAD INCREASED BY PAYROLL TAX PROGRAM

Although the Division requested funding to support the increased workload expected, the Legislature did not appropriate operating costs to implement the Payroll Tax program. Computer development, personnel, and operating expenditures of the new responsibility had to be provided for within spending limits authorized for continuing functions.

Tax statements are due at nearly the same time as State Fund payroll reports. The staff that previously processed approximately 27,000 quarterly payroll reports must now also process almost 35,000 Payroll Tax statements and payments. Since processing both simultaneously with the limited staff was impossible, management determined that prioritized processing was the best alternative to manage the increased workload.

PUBLIC AWARENESS PROGRAMS EMPHASIS ON REFORM LEGISLATION

Almost 4,000 people received instruction about workers' compensation at 70 presentations throughout the state during the fiscal period. Generally, the presentations emphasized the changes in the Workers' Compensation Act made by the 1987 legislative revisions. Many, however, also provided basic information about Montana's workers' compensation system, and its affect on both workers and employers.

Printed matter incorporating the legislative changes and explaining the system was distributed to enhance the material presented. Small Business Clinics attracted the greatest audiences, while service organizations and awareness groups were a close second.

SUBSEQUENT INJURY FUND PROCEDURES REVIEWED

The Subsequent Injury Fund is intended as an incentive for employers to hire vocationally handicapped workers rather than nonhandicapped persons with substantially similar or equal qualifications. The program cannot be used as a means to discriminate against a worker by making employment dependent on certification. Because some misunderstanding exists as to the purpose and certification process, Division officials scheduled a July meeting with 20 self-insurance representatives to discuss the certification process. Proposed new rules are also under consideration which will clarify the procedures under which certification may be obtained.

TRAINING PROGRAM EMPHASIZES MINER SAFETY

The Division is experiencing an increased demand by small mine operators for safety training assistance. The Safety Bureau Mining Section provides the training and receives up to 80% funding from the Federal Mines Safety and Health Administration. These training courses satisfy the federal requirements for miner safety and health training and, generally, result in increased safety awareness. During Fiscal 1988, the Mining Section training officer and mine inspectors conducted 146 training courses, generating over 8,000 trainee hours. Assistance is also provided to employers in developing safety and health training plans.

HOSPITAL RATE REGULATIONS IN REVIEW

A meeting was planned for the fall of 1988 to hear from interested medical providers, hospital administrators, insurers, and others to solicit views on hospital rate regulation. The 1987 Legislature gave the Division rule-making authority and also froze rates as of January, 1988, until January of 1990. In the meantime, proposed methods for rate regulation will be a topic for discussion during the coming fiscal year.

WORK COMPLETED ON PAYROLL TAX AND MEDICAL PAYMENT SYSTEMS

Implementation of a medical payment system provided many improvements including faster turnaround in processing provider invoices. The new process allows the ability to recall payment information using computer terminals, automated denial of duplicate and other nonapplicable services, payment according to the service fee schedule, and a greatly improved remittance statement to providers. Management now has an improved ability to monitor provider pay lag and cost containment mechanisms.

The Division also implemented a basic computer system to receipt payroll tax reports and associated payments. Because the legislature did not provide funding for this project, only vital information is captured by computer. The system design requires an employer to calculate the tax due and remit the payment with the wage report. It also may bill delinquent employers quarterly.

COMPUTER SYSTEM UPDATED WITH NEW HARDWARE

The Division added one additional VS100 minicomputer to its computer hardware configuration. This purchase not only provides for necessary expansion of on-line and word processing capability, but also permits the much needed back-up capability in the event of system loss. Under the new configuration, additional users can utilize the systems while critical functions continue should one system experience operating difficulties.

PRIVATE CARRIER POLICY FILES UPDATED

When a review of private carrier policy filings indicated many were out-of-date, the Division undertook a massive program to ensure all information on employer coverage was current. Letters to carriers stressed the importance of maintaining current data as failure to notify the Division could result in continued liability for lapsed coverage. As responses were received, staff personnel devoted considerable time and effort to the file update process. Now that most files are current, staff will ensure that this status is maintained.

ACCIDENT FILES MICROFICHE PROGRAM ACTIVATED

During FY 1988, a massive effort was undertaken by Administrative Support Bureau staff to prepare claims files for microfiche. The activity had been abandoned in recent years when staff and financial resources were used to support computer system development.

SILICOSIS PROGRAM PARTICIPANTS CONTINUE TO DECLINE

The number of silicosis benefit claimants and surviving spouses receiving support from the Silicosis Benefit Program continues to decline. First quarter beneficiaries were 163 claimants and 119 spouses. By the end of the fiscal year, beneficiaries numbered 159 and 110 spouses. Monthly benefit amounts continue at $200 and $100 respectively.

OVERVIEW OF DIVISION

RESPONSIBILITIES

The Division was created to administer the laws relating to industrial safety as well as statutes addressing payment of benefits to workers suffering from industrial injuries. Safety laws are found in Title 50, Chapters 1-76, Montana Codes Annotated, and the compensation systems laws are found in Title 39, Chapters 71-73.

DUTIES AND ORGANIZATION

The agency is divided into four major bureaus and two offices. Administrative Support Bureau gives overall financial and operational support to Division functions. The State Insurance Fund Bureau operates and administers a workers' compensation insurance system which permits employers one option to obtain the necessary coverage. The Insurance Compliance Bureau carries out the regulatory duties given the Division including policy compliance, rehabilitation coordination, claims review, and files management. The Safety Bureau administers laws addressing industrial and occupational safety. Executive and legal offices provide administrative and legal counsel to Division operations.

FINANCIAL

The state's accounting system presently provides ten fund types of which the Division uses five. General Fund--provides funds to cover the costs of the Social Security offset benefit program. Special Revenue Fund--accounts for income generated chiefly from assessments levied against insurers and expended for Division operations. Federal Special Revenue Fund--accommodates funds received from federal sources. Agency Fund--used to account for securities deposited with the Division by insurers to guarantee benefit payments. Expendable Trust Fund--used to account for funds where the Division is designated as custodian or agent.

PROGRAM COST STATEMENT

FISCAL YEAR ENDED JUNE 30, 1988

COSTS	Administration Program	State Fund Program	Compliance Program	Safety Program	Total
Personal Services:					
Salaries	$ 792,822	$ 1,793,311	$ 634,741	$ 522,254	$ 3,793,128
Employee Benefits	184,730	405,142	161,961	151,513	903,346
Sub-Total	$ 977,552	$ 2,198,453	$ 846,702	$ 673,767	$ 4,696,474
Operating Expenses:					
Contracted Services	$ 429,257	$ 1,127,238	$ 142,164	$ 12,635	$ 1,711,294
Supplies & Materials	22,032	49,267	14,605	19,335	105,239
Communications	32,529	208,146	77,182	16,322	334,179
Travel	11,607	29,615	7,111	93,738	142,071
Rent	13,062	3,625	54	2,090	18,831
Utilities	43,706	0	0	0	43,706
Repairs & Maintenance	58,867	36,387	9,773	11,741	116,768
Other Expenses	17,520	7,621	6,347	2,872	34,360
Department of Labor Assessment	74,603	305,499	104,870	0	484,972
Sub-Total	$ 703,183	$ 1,767,398	$ 362,106	$ 158,733	$ 2,991,420
Equipment	$ 10,928	$ 195,854	$ 58,210	$ 23,548	$ 288,540
Intangible Assets	15,300	320	0	0	15,620
Sub-Total	$ 26,228	$ 196,174	$ 58,210	$ 23,548	$ 304,160
Transfers	$ 231,385	$ 0	$ 0	$ 0	$ 231,385
Benefits	$ 0	$ 0	$ 578,446	$ 0	$ 578,446
TOTAL PROGRAM COSTS	$ 1,938,348	$ 4,162,025	$ 1,845,464	$ 856,048	$ 8,801,885
SUMMARY OF FUNDING					
General Fund	$ 0	$ 0	$ 52,445	$ 0	$ 52,445
State Special Revenue Fund	1,909,824	4,162,025	1,793,019	765,288	8,630,156
Federal Special Revenue Fund	28,524	0	0	90,760	119,284
TOTAL FUNDING	$ 1,938,348	$ 4,162,025	$ 1,845,464	$ 856,048	$ 8,801,885

BALANCE SHEET--JUNE 30, 1988

		State Special Revenue Fund		
	General Fund	Division Administration	Payroll Tax	Resource Indemnity Trust Fund Interest
ASSETS				
Cash	$	$ 262,110	$ 455,967	$
Receivables		536,808	2,587,523	1
Supplies Inventory		72,381		
Investments				
Property Held in Trust				
Expense Advances to Employees		18,451		
Other Prepayments	716	25,435		43,400
TOTAL ASSETS	$ 716	$ 915,185	$ 3,043,490	$ 43,401
LIABILITIES				
Accounts Payable	$ 1,864	$ 663,724	$ 3,043,490	$ 340
Accrued Support Expenditures		176,941		
Contingent Liabilities				
Allowance for Contingent Liabilities				
Unaccumulated Bond Discounts				
Unaccumulated Federal Security Distributions				
Bonds Held in Trust				
Due to Consolidated Entity	(1,148)			43,061
FUND BALANCE		74,520		
TOTAL LIABILITIES AND FUND BALANCE	$ 716	$ 915,185	$ 3,043,490	$ 43,401

(1)
In order to determine operating fund balance, Allowance for Contingent Liabilities (reserves) must be deducted from this figure.

Federal Special Revenue Fund			Agency Fund	Expendable Trust Fund		
Mine Safety	OSHA Statistics	On-Site Consultation	Insurance Liquidation	Subsequent Injury	Uninsured Employers	Insurance Company Liquidated Bonds
$ 2,325	$ 3,045	$ 21	$	$ 44,270	$ 64,241	$ 322
59	4	17,695		38,273	849,586	46
				2,653,520	1,035,700	231,600
			21,665,000			
				544		
$ 2,384	$ 3,049	$ 17,716	$ 21,665,000	$ 2,736,607	$ 1,949,527	$ 231,968
$ 1,649	$ 1,491	$ 17,716	$	$ 7,243	$ 44,195	$
195						
				(660,113)	(135,242)	
				660,113	135,242	
540	1,558					
				142,765		
				673		
			21,665,000			
				2,585,926	1,905,332	231,968
$ 2,384	$ 3,049	$ 17,716	$ 21,665,000	$ 2,736,607	$ 1,949,527	$ 231,968

STATEMENT OF CHANGES IN FUND BALANCE
FISCAL YEAR ENDED JUNE 30, 1988

		State Special Revenue Fund		
	General Fund	Division Administration	Payroll Tax	Resource Indemnity Trust Fund Interest
FUND BALANCE, JULY 1, 1987	$ 0	$ 19,117	$ 0	$ 0
ADDITIONS				
Legislative Appropriations	$ 69,582	$	$	$ 565,061
Receipts:				
Licenses & Permits		32,354		
Taxes			10,952,370	
Charges for Services		1,402,745		
Fines & Forfeitures				
Federal Indirect Cost Recoveries		1,437		
Other Financing Sources		6,933,695		
Investment Earnings				
Federal Assistance				
Miscellaneous		3,149		
Increase in Inventories		22,159		
TOTAL ADDITIONS AND FUND BALANCE	$ 69,582	$ 8,414,656	$ 10,952,370	$ 565,061
DEDUCTIONS				
Support Expenditures	$	$ 8,078,288	$	$ 12,391
Transfers		231,385	10,952,370	
Benefits	52,446			526,000
Reversions*	17,136			26,670
TOTAL DEDUCTIONS	$ 69,582	$ 8,309,673	$ 10,952,370	$ 565,061
PRIOR YEAR ADJUSTMENTS				
Revenue	$	$ (24,839)	$	$
Expenditures		(5,624)		
TOTAL ADJUSTMENTS	$	$ (30,463)	$	$
FUND BALANCE, JUNE 30, 1988	$ 0	$ 74,520	$ 0	$ 0

*Expenses pertaining to the fiscal year that were not accrued at year end may be paid from the reversions.

Federal Special Revenue Fund			Expendable Trust Fund		
Mine Safety	OSHA Statistics	On-Site Consultation	Subsequent Injury	Uninsured Employers	Insurance Company Liquidated Bonds
$ 0	$ 0	$ 0	$ 2,680,008	$ 1,285,683	$ 226,622
$	$	$	$	$	$
				34,000	
				861,537	
			218,422	37,144	5,346
41,576	27,357	49,021			
				5,555	
$41,576	$ 27,357	$ 49,021	$ 2,898,430	$ 2,223,919	$ 231,968
$41,739	$ 28,524	$ 49,021	$ 5,612	$	$
				275,700	
			306,493	63,547	
$41,739	$ 28,524	$ 49,021	$ 312,105	$ 339,247	$ 0
$	$ 1,188	$ 1,263	$ (399)	$ (4,811)	$
163	(21)	(1,263)		25,471	
$ 163	$ 1,167	$ 0	$ (399)	$ 20,660	$ 0
$ 0	$ 0	$ 0	$ 2,585,926	$ 1,905,332	$ 231,968

COMPARATIVE STATEMENT OF REVENUE SOURCES
FISCAL YEARS ENDED JUNE 30, 1987, AND JUNE 30, 1988

	1987		1988	
Licenses and Permits:				
Engineer Licenses	$ 29,471		$ 28,927	
Explosives Licenses	3,232	$ 32,703	3,427	$ 32,354
Taxes:				
Payroll Tax		-0-		10,952,370
Service Fees:				
Copies of Documents	$ 44,958		$ 38,480	
Plan I Assessments	294,816		533,853	
Plan II Assessments	1,002,276		978,131	
Jury Duty & Witness Fee	132		179	
Fatality Assessment	32,000		34,000	
Total Fees	$ 1,374,182		$ 1,584,643	
Less Transfers To:				
Workers' Compensation Judge	(184,074)	1,190,108	(147,898)	1,436,745
Investment Earnings:				
Corporate Bonds	$ 308		$ 251	
Industrial Bonds	74,268		90,347	
Railroad Equipment Trusts	19,400		19,400	
Public Utility Securities	48,125		48,360	
US Treasury Bills	9,593		-0-	
Annual Modified Income	36,521		8,856	
Short Term Investment Pool	130,773	318,988	93,698	260,912
Fines:				
Motor Vehicle	$ 358,758		$ -0-	
Civil Penalties	526,695	885,453	861,537	861,537
Federal Indirect Cost Recoveries		4,490		1,880
Grants, Contracts & Donations:				
OJT Reimbursement	$ 1,679		$ -0-	
Donations	223	1,902	-0-	-0-
Miscellaneous:				
Penalties & Interest	$ 988		$ 7,279	
Recovery	10,421		-0-	
Subrogation	950	12,359	1,425	8,704
Other Financing Sources:				
State Compensation Insurance Fund	$ 5,725,000		$ 6,785,000	
Crime Victims Assessments	54,937		-0-	
Uninsured Employers Assessments	91,149		275,700	
Total Other	$ 5,871,086		$ 7,060,700	
Less Transfers To:				
Workers' Compensation Judge	(90,254)	5,780,832	(127,005)	6,933,695
Federal Assistance:				
Federal Department of Labor:				
On-Site Consultation	$ 61,316		$ 49,021	
Survey Program	31,516		27,357	
Mining Education	36,919	129,751	41,576	117,954
Increase in Inventories		214		22,159
TOTAL REVENUE		$ 8,356,800		$ 20,628,310

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